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Susan M. Hudson, Clerk  
Vermont Public Service Board  
112 State Street, Drawer 20  
Montpelier, VT 05620-2701

**HAND DELIVERED**

Re: RGGI Workshop re the Establishment of a Process to Allocate Vermont's Budget of Carbon Credits and Appointment of Consumer Trustee or Trustees pursuant to 20 V.S.A. § 255

Dear Susan:

I write on behalf of Green Mountain Power Corporation ("GMP") to provide GMP's preliminary comments on the issues raised in your Issue Framing Memo dated November 15, 2007.

Thank you for the opportunity to participate in this Board workshop and to present our comments. We appreciate the opportunity to discuss Vermont's implementation of the RGGI program using the less formal workshop process.

GMP's comments will address four areas: (1) Allocation of allowances; (2) Use of auction proceeds; (3) Choice of Trustee(s) and (4) Next steps.

**(1) Allocation of allowances.**

The consensus at the workshop seemed to be that the existing legislation provides the Board with the flexibility to decide how to allocate allowances, including whether to sell all allowances through an auction process, to allocate some or all of the allowances directly, and to set aside allowances for future uses or programs. We agree that the Board enjoys this flexibility. GMP suggests that the Board employ this flexibility to fulfill two objectives in implementing RGGI in Vermont:

- First, we agree with that the Board should set aside sufficient allowances to allow retirement of allowances commensurate with voluntary purchases of new renewable energy through programs offered by Vermont distribution utilities. We believe that our customers, and the customers of other utilities' voluntary purchase programs for new renewable energy, believe and expect that the premium they pay to support renewable energy will help reduce greenhouse gas emissions. The implementation of RGGI's cap and trade system thus poses significant issues for the marketing and administration of such programs unless the "renewable" portion of a customer's

purchases includes matching<sup>1</sup> Renewable Energy Credits and RGGI allowances. Customers now pay a significant premium to participate in voluntary renewable energy programs. Adding the cost of acquisition of matching RGGI allowances will increase this premium. Setting aside allowances, along the lines described in Attachment A to the Board's November 15<sup>th</sup> memorandum will promote participation in voluntary programs and help contain the costs associated with such participation.

- Second, we hope that the Board will retain flexibility regarding allocation of allowances in the future to advance other state energy policy initiatives, including in-state generation that may require allowances to operate. Vermont is in the midst of a vigorous discussion of future power supply choices and the Department has recently concluded its public participation process. The results of that process have not yet been released and the policy implications are not yet known. We expect vigorous debate in the Legislature and before the Public Service Board about the re-licensing of Vermont Yankee, the current provider of a significant portion of Vermont's baseload power. We and other utilities have begun discussions with Hydro-Quebec about new contracts after expiration of the current Vermont Joint Owners' contract entitlements. The Board has before it a Section 248 petition for a significant wind project (Deerfield), and we are hopeful that over the next several years additional commercial scale renewable projects will be presented for approval under Section 248. We also expect the utilities and the Vermont System Planning Committee process to evaluate generation options – potentially including fossil fuel-based generation – as power supply options and as alternatives to transmission projects. Some energy policy advocates believe that Vermont should add generation facilities to achieve greater “energy independence.” As Vermont energy policy continues to evolve, the Board may find it appropriate to create incentives for construction and/or utilization of some fossil-based generation. Allocation of allowances could become an appropriate means of providing appropriate incentives. The Board should consider retaining the flexibility to use allowances in this manner in the future.

## **(2) Use of Proceeds from Sale of Allowances.**

Workshop participants expressed a variety of views about how monetary proceeds from the sale of allowances should be used. GMP believes that the primary principle underlying any policy governing use of proceeds is that such proceeds are public funds, and therefore should be used in a manner that benefits Vermont consumers. This is consistent with the statutory mandate that trustee(s) hold proceeds “acting on behalf of consumers.” 30 V.S.A. § 255(c)(2). As discussed during the workshop, there are several analogous models for spending these public funds – including, for example, the Energy Efficiency Charge, use of NEIL funds, universal service funds, etc. GMP believes that the Board's implementation of RGGI should allow the trustee of allowance sale proceeds to retain flexibility regarding how to apply proceeds for Vermonters' benefits. There are a variety of ways to benefit Vermonters, and priorities may

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<sup>1</sup> We note that the Board will need to establish a method to quantify the amount of RGGI allowances to associate with voluntary renewable electricity purchases. We suggest that the Board consider using New England marginal emission rates for this purpose

change over time. Examples include investment in efficiency (or other programs or measures that reduce energy costs to Vermont consumers), offsetting amounts already contributed by Vermont consumers to fund efficiency programs (e.g., the EEC), directing funds to clean energy investments (e.g., the Clean Energy Fund), or even direct refunds to ratepayers. We do not share the view that any inflexible standard (such as the concept of "additionality") should be imposed in implementation. Priorities may change, and implementation should allow for flexibility in how proceeds are used (or returned) to benefit Vermonters.

**(3) Choice of Trustee(s).**

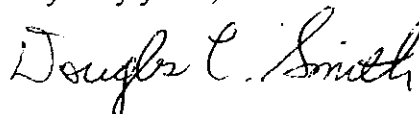
GMP does not have a position on specific entity or person(s) who should act as trustee of allowances or proceeds from allowance sales. We suggest, however, that the Board focus on principles of efficiency, cost and focus in choosing a trustee or trustees. As discussed at the workshop, there are a variety of existing organizations that could act as trustee. It seems inefficient and unnecessarily costly to engage in a process to establish a new and different entity for this limited purpose. For context, we note that the total funds at stake in this discussion may be fairly limited, probably on the order of several million dollars per year. We therefore suggest that the trustee should be an entity or organization that currently exists, that has the capability to manage the allocation of allowances and proceeds in an efficient, low-cost manner, and that has demonstrated the ability to execute such assignments in a focused, reliable manner.

**(4) Next Steps.**

GMP found the November 8, 2007 workshop to be a constructive session. We suggest an additional workshop or workshops on specific implementation areas, to refine the Board's views and stakeholders' recommendations for implementation of the statutory mandate. Focusing on implementation might profit from distribution of a proposed or "straw man" implementation plan, with direction from the Board that stakeholders submit written comments or mark-ups to such a plan in advance of a workshop to discuss the plan. After considering the parties' comments to a specific proposal, the Board could then decide on the appropriate process for adoption of a final implementation plan – that is, whether by rule-making or contested case procedure. The Board might find it useful to appoint, from the stakeholders participating in the workshop, a committee to formulate the proposed "straw man" implementation plan. Such a committee should include a representative of the Department. GMP is prepared to participate on such a committee if the Board deems our input useful.

Thank you for the opportunity to provide these comments. If the Board has additional questions, or we can provide any additional information, please let me know.

Very truly yours,



Douglas Smith

cc: Riley Allen